SELECT COMMITTEE ON CONSUMER CREDIT

HEARINGS HELD AT PARLIAMENT BUILDINGS,
TORONTO, ONTARIO.

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---UPON RESUMING AT 2:00 P.M., NOVEMBER 19, 1963.

THE CHAIRMAN: Gentlemen, we will proceed with the meeting. We have with us this afternoon Mr. J. C. Lofquist and Mr. Robson, Secretary of the Canadian Bankers' Association. Mr. Lofquist is also here as he is the Manager of the Consumer Credit Department of the Canadian Imperial Bank of Commerce. But first of all we will hear the brief from the Canadian Bankers Association which I understand Mr. Lofquist is going to read to us.

MR. LOFQUIST: I understand you would like me to read this?

Mr. Chairman, Members -- "On behalf of the member banks, this Association is grateful for the opportunity to make a submission to this Committee. In recent years there has been considerable progress in appreciation and understanding of the role of consumer credit in our national economy. The appointment of your Committee to study the question in detail is further evidence of this progress.

"It will be appreciated that an Association such as ours must of necessity find a common denominator in representing its members and that information provided can best be outlined in broadly representative terms.

"This Committee is no doubt aware that a federal Royal Commission has been investigating all aspects of banking and finance in Canada for the past two years, and in its appearance before that Commission the Association presented a statement on the matter of

instalment loans. This was a well considered declaration endorsed by all banks, and on reviewing it we felt that we could do no better than to make it the centre peice of our presentation today. It appears in the brief of the Association filed with the Royal Commission on Banking and Finance in July, 1962.

'The banks have always made loans to individuals for a great variety of purposes and with a great variety of repayment arrangements, within ordinary banking practice. Some of these loans were very similar to the instalment loans now being made.

'In the 1930's, however, there was a good deal of public criticism of the rates charged for small loans by some lenders, and this led ultimately to the first Small Loans Act, passed in 1939. Against this background one of the chartered banks began in 1936 to offer a special kind of personal loan which may be called an instalment credit loan. Full details of this plan were presented to the Banking and Commerce Committee in 1944 and 1954. During the past few years most of the other banks have also set up instalment credit loan plans, a development facilitated by the 1954 revision of the Bank Act which allowed the banks to take chattel mortgages as security. This development was also encouraged by the fact that banks in the United States had been successful in the consumer credit field for a number of years and that banks in the United Kingdom also entered the field on a large scale in 1958. In general, the banks have set up these programs to reach a group of borrowers, who, while unable to provide

collateral in the traditional form, are nevertheless creditworthy, and who wish to borrow for worthwhile purposes usually connected with their homes and families. We believe that consumer instalment credit has become firmly established and that such loans are a logical development of banking services. The extensive branch bank system is highly suitable for providing consumer credit. Because the banks already have well developed facilities they are able to offer consumer credit at rates which (including service charges) are more favourable to the borrower than those charged by specialized institutions. The banks are also well aware that a customer who comes into a branch initially for an instalment credit loan is likely to want to make use of the other services offered by the bank, so that these loans attract other business.

'The most important category of instalment credit loans is loans for the purchase of automobiles, but large numbers of loans are also made to finance the purchase of furniture, to pay medical bills or holiday expenses, and to consolidate debts. The main characteristic of such loans is that they are intended to be repaid out of future income of the borrower and are usually repaid in equal monthly instalments on an amortized basis. They are usually made for an overall term of not more than 36 months, and not usually for an amount of more than $5,000. A normal feature is insurance to repay the balance of the loan in case of the death of the borrower.

'Although instalment credit loans of

the chartered banks are not shown separately in bank loan statistics, total personal loans in the group which includes loans made under these programs (that is total personal loans excluding those fully secured by marketable bonds or stocks and Home Improvement Loans guaranteed by the Government) stood at $1,029 millions at the end of December, 1961, compared to about $350 millions at December, 1954. Of course, instalment credit granted by other lenders has also been rising in this period. It is estimated, however, that the chartered banks' share of consumer credit has risen from about 21 per cent to 32 per cent since 1954'.

"In the discussion on this classification of bank lending at the Commission's hearings held in Ottawa in January of this year, such matters as the cost of credit, method of determining the cost, rates of interest and other charges as well as the manner in which the amount of interest or other charge is shown, were dealt with. It is fair to say, however, that these matters were not discussed in great detail primarily because all banks, save one, are relatively new in this field. Procedures as well as policies differ. Indeed, it was indicated that charges varied too. For example, they range from $5.17 to $6.00 per $100 for 12 months, $10.09 to $11.60 per $100 for 24 months and $15.01 to $17.49 per $100 for 36 months. It should be noted that these costs include the charge for providing life insurance coverage for the borrower but are exclusive of exigible penalty charges for late payment. It was evident that the tendency of competition is not towards

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equalizing instalment credit charges. On the contrary, the more thoroughly lenders and borrowers understand their business and responsibilities respectively, the more certainly will some groups of borrowers in the field of consumer credit obtain financing at lower costs than others.

"Like much of the foregoing, it is a matter of record that generally speaking, the members of the Association have no objection in principle to furnishing to the borrower an expression of the charges levied for instalment loans as a simple annual cost rate. However, it was pointed out that in practice it is very difficult to find a universal or a uniform basis for covering all the charges that are made and expressing them as one simple annual percentage.

"As an Association we regret that we are unable to resolve this difficulty without a prescribed formula as there are a number of generally accepted methods of computation. Such computations are most often used on the one hand by various lending agencies to determine their yield as a per cen per annum on the principal sums that they have employed in or advanced as instalment loans in which the charges therefore have been included in the face amount of the loan instrument. On the other hand, they could also, of course, display as a percentage figure the simple annual cost rate of the loan to the borrower.

"For example, the Minimum Yield Method assumes that the entire charge is collected before any repayments are applied to reduce the principal and is

so called because the rate of charge computed according to this method is lower than the rate computed by any other method of charge distribution.

"The Maximum Yield Method assumes that all payments are applied to recapture all the principal before the remaining payments or portions of payments are applied towards the charges. This method produces a rate of charge higher than the rate computed by any other method of charge distribution.

"In the Actuarial Method of computing cost rates, the ratio is the same for each unit time period and for the total time of the transaction. This assumption conforms to the definition of a true rate that the charge is dependent on both time and principal.

"The Direct Ratio Method assumes that the portion of the total charge contained in each instalment is computed as a direct ratio of the number of remaining unpaid balances to the sum of the original number of instalments. It is said that this assumption violates the definition of a true rate that the charge is directly dependent on both time and principal.

"The Constant Ratio Method of computing cost rates assumes that the allocation of the charge is proportional to the number of periodic payments. The result is that each periodic payment reduces the charge by one constant amount and the principal by another constant amount and the charge is a constant percentage of each periodic payment. It is said that this assumption also violates the definition of a true rate.

"As indicated before, we have no objection to disclosure of effective cost rates but consider that it would be most difficult to arrive at a practicable formula for general use.

"We trust that the brevity of the foregoing will not be construed as indicative of any lack of interest in this vital topic. We are most anxious to contribute to the understanding of the role played by the banks in the personal instalment credit field. As we have indicated, we appreciate the opportunity of making this submission."

THE CHAIRMAN: Mr. Sedgwick?

MR. SEDGWICK: I have only one question, Mr. Chairman. I am looking at page 6 of your brief Mr. Lofquist, and I take it that the Actuarial Method is probably the closest to the true rate, and using that method about what rate of interest would the banks charge on their personal loans?

MR. LOFQUIST: Well, this varies over a range of approximately 10% to 11.4, depending on the terms.

MR. SEDGWICK: Yes, about 10 to 11.4

MR. LOFQUIST: Yes. It might come slightly below 10 on a short term loan.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Mr. Chairman and Mr. Lofquist -- on pages 5, 6 and 7 -- I don't suggest we get into a discussion on these various mathematical formulas, but do you think that it would be possible for legislation, let us say, to be so strengthened that one of these

methods or one of the many methods -- there are others -- could be reduced to an arithmetical expression which could be applied on all forms of contracts? Now I grant you there would be some variations in the rates, but they could be made approximately, sufficiently nearer to the truth. A shopper for credit would be able to say this one is offering credit at 12% and this one at 13%?

MR. LOFQUIST: Well, there are so many varieties of repayment. It wouldn't be difficult actually if you were getting into a simple instalment credit operation where everybody was loaning on an amortized payment payable in 12 equal instalments, but I think where your principle difficulty arises is when you get into the -- I'm going to use the term off-beat, and I am not casting any reflection on the transaction by that -- where it's payable by weekly payments or where it is just a short thing that is going to run for six or eight weeks in weekly payments. When you get all the different varieties of transactions that arise, this is where the difficulty arises in applying these things.

MR. IRWIN: In carrying that thought along, would it not be possible to reduce all common types of transactions to, let's say, four categories, or three or five and then for each one of those prescribe a simple --

MR. LOFQUIST: You run into the difficulty in practice in somebody interpreting this thing. You take a specific example where somebody is

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going to borrow something or purchase something on credit for, say, $1,000 and pay it back on a certain basis. Then you get into an instalment credit transaction in a small store where somebody is buying something for $9.73 and they are going to pay 50¢ a week. I think you would be very hard put to find a table where a normal clerk in a store could sit down and figure that transaction out.

MR. IRWIN: What I am trying to get at is more than just a description of four or five simple formulas. Would it not be possible, say, to legislate that you can only sell within the terms of one of those four or five --

MR. LOFQUIST: I think the first thing you would have to do is determine which formula you want to follow.

MR. IRWIN: In other words you can have a selection -- you can sell at 50¢ a week for so many weeks or you can sell for $10.00 a month for so many months. This is just illustrative. Then if you do that, type A would call for this calculation and type B would call for that calculation?

MR. LOFQUIST: I wouldn't say that it isn't possible to do this sort of thing, it's probably very possible, but I think it would be a very complicated procedure.

MR. IRWIN: It occurs to me -- I grant you to work out an exact rate of interest you would have to know all the circumstances of every transaction and you would also have to agree on a universal method

because even the accepted mathematical method they are only approximate by interpolation, for instance, of tables. But it still -- I'd like you to agree with this -- it still seems to me that we are creating a great barrier which could be resolved. It just seems to be the common objection that, yes we all would love to see it but it's impossible.

MR. LOFQUIST: I wouldn't say it's impossible. I would say it would create a very complicated set of rule for interpretation. Of course all of this would have to depend to on the actual performance of the borrower. You might tell the borrower in advance that his effective rate is going to be this, this is subject to his performance. And no matter what you told him at the beginning it could turn out to be something else, although the variation wouldn't be very great, but nevertheless it would still throw the thing out as far as what his actual effective rate had been at the determination of the contract.

MR. IRWIN: Well, I thank you. I realize it is difficult but it doesn't strike me as impossible.

MR. LOFQUIST: No, I don't think so.

MR. IRWIN: I think when there are many objection to the difficulty, or many suggestions of the difficulty of expressing a rate of interest, they are very marginal differences. We may talk about 1% --

MR. LOFQUIST: I think we have to think also of the people who are involved in interpreting it. Even some of the so-called experts will sit down and

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you will get about five different rates quoted back to you as to what the effective rate of interest is. As a matter of fact this morning I sat down with a table that has been devised by someone in the States to figure out what the effective interest rate is -- just what formula he was on I didn't know, so I was trying to find it. I'm still beat.

MR. IRWIN: I can agree with you on that except that I think the differences between the different formulas are not that great.

MR. LOFQUIST: No, the various formulas are not likely to exceed, oh a half to three-quarters --

MR. IRWIN: That's what I am trying to get at. In other words I have taken a set of calculations relating to a hypothetical transaction and I will work out a rate of interest and then get one of my actuary friends to do the same and they will come up with a different answer, but the differences are not great.

MR. LOFQUIST: No.

MR. IRWIN: In other words, to the shopping buyer of credit, the slight marginal variations between different mathematical applications are not so much that they would mislead --

MR. LOFQUIST: They are not so much except that I think if you are going to buy anything you should agree on a standard one as a starting point.

MR. IRWIN: That's right. In other words you should agree on a standard one whether it's right or wrong or whether it is the most scientific

method, you could agree on a formula which approximately expressed the rate of interest, given a series of transactions or types of transactions?

THE CHAIRMAN: Mr. Lawrence, do you have any questions?

MR. LAWRENCE: This seems to be the same old refrain -- it may not be impossible but it's difficult to set this thing up and yet it would seem to me, as far as legislation is concerned, take, for instance, the federal Small Loans Act, there is no real great difficulty as far as people are concerned in attempting to follow the restrictions in that particular Act. The legislation is there, it's been there a few years -- there has been no great difficulty in following them. The same in the blended mortgage field, which of course the banks had a rough experience with a few years ago, but as far as blended payments are concerned federal legislation, the federal Interest Act, says you have got to set down the interest as payable not in advance, half-yearly or quarter-yearly, as the case may be, in simple interest terms.

MR. LOFQUIST: That's right.

MR. LAWRENCE: This again has been on the federal statute books for years and they have been able to follow it without any great difficulty.

MR. LOFQUIST: I think one of the reasons, Mr. Lawrence, is what I referred to before here, is a very uniform type of transaction. It's uniform, whereas small retail credit transactions, you get a great variety of transactions, repayment terms and so

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forth and it's not quite so easy there.

MR. LAWRENCE: No, but if legislation was, in effect, out clearly, there wouldn't be any difficulty. Even the Bank Act -- up until a few years ago the banks (next few words inaudible),then they found there were ways of getting around it, and now you charge over 6% in effect. I know you had to do this to get into the field, but I mean, up until that time it was pretty definite that you weren't going to get into this field because it wasn't worth your while. Then someone found a loophole in the Act, because it wasn't set out clearly enough and now you are in the field. This is fine, you are meeting a need obviously, but as far as the rest of the credit field is concerned we have got to enact legislation setting out very definitely and clearly -- not necessarily what the interest rate should be but how they should be set out, and the banks would have no difficulty in following the formula, I presume?

MR. LOFQUIST: No, we would have no objection to it. We merely point out to you that there are difficulties as to the variety of transactions. It's perhaps easier for us to define what the effective cost rate to the borrower is because we are on a regular, scheduled repayment program.

MR. LAWRENCE: Yes. I mean there is that difficulty at the moment because there isn't any over-riding legislation.

MR. LOFQUIST: Well, it isn't legislation so much as no one has decided on what basis it is to be

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determined, which of the formulas is to be used when you describe the effective cost rate to the borrower, which formula are you using, you might be using any one of the five. If someone makes a comparison now, they don't know what they are comparing at the moment. That's the remark of this gentleman before, that the first thing would be to choose one.

MR. LAWRENCE: Yes, well then we have to grope to find a formula, presumably and then --

MR. LOFQUIST: I don't think there is any need for groping.

MR. IRWIN: We refer, and everyone refers, to the great variety of credit transactions. Would it not be true that the first thing to do is to describe and limit the variety of transactions?

MR. LOFQUIST: By that do you mean you would also be governing the terms of sale and the manner in which credit might be extended?

MR. IRWIN: What I am trying to get across is that every credit transaction can differ -- the borrower and lender can agree on the instalment amount, the number of payments, they can start low, they can finish high by having a balloon at the end, they can have a big down payment or no down payment -- there are all kinds of permutations and combinations in the credit contract. If it is permitted and given those circumstances, I agree with you it would be impossible to create a simple formula to cover all of them. But what you would be able to do is to prescribe that there can be two or three or four or even a half dozen contracts.

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You can have this kind of a contract or that kind of a contract and if you have type A contract then you use this formula, if you have contract B then you use that formula.

MR. LOFQUIST: I suppose it is possible but you would be introducing a rigidity into selling where a vendor would be tied down to a specific formula of credit that he could extend as far as the amount and terms.

MR. IRWIN: I've had a fair amount of exposure to credit operations (next part inaudible). I just find it is not all that complicated, it could be reduced to some kind of standard contract without interfering very much with the buyer and the vendor.

MR. LOFQUIST: Actually, I don't know if I'm competent to deal with that because it wouldn't affect us as a group of banks to that extent, but I see restrictions that might apply to other forms of enterprise and I don't feel that I should answer in that respect because I think this is going to tie the man just a little tighter than they want to. Credit is used today, as you know, for wheeling and dealing, and whether this is good or bad, I have no comment. It is certainly going to apply a great deal of restrictions to business generally today.

MR. MacDONALD: Mr. Chairman, as I see it at this Committee level, credit is done in a great variety of wheeling and dealing, and as a result the consumer is getting rooked.

MR. LOFQUIST: Well, I don't know as he

is in every case.

MR. MacDONALD: Well, not in every case, I would acknowledge he isn't getting rooked in every case, but our problem is how do you standardize, at least to the degree that is necessary to be able to establish rules so that people know they are not going to be rooked, that they can be protected from this kind of rooking.

MR. LOFQUIST: Well I think, Mr. MacDonald, that a great deal has to do with whether the consumer wants to accept this or not. It worked very well during the war time as you know, perhaps an ideal situation as far as credit is concerned, because the terms were very well laid down. There were certain minimum down payments required and there was a certain maximum term in respect of particular transactions. In that case there were too many dollars taking too few goods so this was accepted and I think actually probably most storekeepers felt quite well about this because they didn't have to compete on a credit basis. I think one of the big questions you have to consider now is whether the consumer himself wants to be restricted in this way. Even though some of them get rooked, I would say the great body of consumers -- and this is only a personal opinion -- like to have their freedom too.

MR. MacDONALD: Well, I don't want to get into an argument over the extremes here because I know one can very easily develop quite a popular sport for the proposition that your freedom is being taken away from you and I am going to protect you, guarantee

your freedom. This is a standard practice. However, it seems to me that if we are going to come to grips with this, and the tragedy of it is that it may be a minority of cases in which the consumer is being rooked, but we have been faced now for the umteenth time with your statement that this is difficult and it sort of leaves us up in the air. What can be done about it? And I am getting very quickly to the point, well, we are not going to be left up in the air with every presentation all throughout the year or that's where we will be when it's finished. And I don't think we can afford to come out of this Committee without some proposals. I submit to you that the line of reasoning that Mr. Irwin was presenting seems to me at this stage the only practical one. In some fashion or another you offer, say, a half dozen forms of credit. And just as the storekeeper and the seller during the war was glad he was relieved of the dog-eat-dog competition of credit, in fact while he thought he was getting his freedom back he got an awful lot of worry along with his freedom when he was relieved of this sort of standard approach. But you could have a certain number of standard procedures which wouldn't restrict, in reality, either the interest of the vendor or of the purchasor. And then, it seems to me, you would be in a position -- in fact I want to ask a question in this connection. If you have got a variety of procedures here for setting up a formula, wouldn't it be a feasible proposition that the government, for example on recommendations from this Committee, would say some formula has to be adopted. We

are not presuming to suggest we are not experts in the field, we are not presuming to suggest -- but the government, in effect, says we are to establish a formula and then sets up a Committee of experts representative of bankers, all the people who are normally in the credit field, in effect like choosing a new pope, you walk in a room and you can't come out until you come up with a formula. Then we would have a formula -- then you would have, say, six standard procedures, you would have a formula -- I don't think anybody's interests would be hurt -- I'm convinced the consumer's interest would be advanced and the minority of consumers who really take a rooking would be protected. That phase of it would be ended, that abuse would be ended.

MR. LOFQUIST: I think it is perfectly possible to do this. It's a question of whether the legislative body wants to go that far. It's as simple as that.

MR. BUKATOR: Well, I feel a lot like Mr. MacDonald feels about it, that there is no difficulty in coming up with an interest rate, no matter what the rate may be, (rest of statement inaudible). Since you were good enough to get copies of that bill for us and the debates in the House, we shouldn't just shrug our shoulders and say it's impossible (rest inaudible)

MR. LETHERBY: Mr. Chairman, excuse me, there is a whispering campaign going on here. Won't these men speak up so we know what's going on?

THE CHAIRMAN: Well, you're not missing

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too much (laughter).

MR. BUKATOR: I don't think you will miss too much from what I have to say. To repeat -- I think it's possible to work out an interest rate where the consumer knows exactly what he is paying for his money. I think that is the end of this Council or this Committee, at least I think we are destined to come up with that particular solution. I don't think we want to fail. We have a job to do and I think we are going to do it. I don't think the people should be taken, this group that you were talking about being rooked as being a minority, I think there is many more being rooked than know it and I do believe that the legislature has to take the bull by the horns and reveal to the public what they are paying for their money. I like to believe that the bank has the formula worked out pretty well for interest rates. I know what I am paying them and I think when it comes to stores (rest of sentence inaudible). And I think maybe that consumer credit people could do the same thing. How we come to that end I don't know but you can rest assured there will be work to it.

THE CHAIRMAN: Mr. Lofquist, we have had quite a number of people come before this Committee and complain that the banks have an unfair advantage in this deal because the popular impression is that the banks get a rate of 6% and you said it works out to 10 to 11.4, or something of that nature, and the thought in advertising suggests the bankers rate would be -- the public assumes it is 6% -- this gives them an

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advantage, and I notice that you say that your share of consumer credit has gone up 20 to 32% since 1954. Have you any comment on this allegation that the banks do have an unfair advantage?

MR. LOFQUIST: My comment would be that they don't have an unfair advantage. They are competing and the people who cry the loudest are the ones who have been affected by the competition and his own interest rates have been affected. I think the share the banks have taken of consumer credit has resulted in a general lowering of rates, particularly in the automobile finance field. Perhaps it's a case of a tight shoe.

MR. MacDONALD: Well, for those who are much beyond the 11, 12 or 15%, I imagine your comment is very applicable. One other question I would like to ask you. Yesterday we had a representation to this Committee that the Bank Act should be amended to permit banks to loan on real estate, the second mortgage field. The argument being that this is,certainly has secured collateral as many other collateral the banks now accept. Has the Banking Association any view on this, or alternatively have you a personal view that you would care to give this Committee?

MR. LOFQUIST: Well, as you probably know, in the submission to the Royal Commission, the banks did ask for power to take mortgage security which would put them in the conventional mortgage field. In asking for this I would think I am reasonably safe in saying -- this is an assumption on my part -- that we weren't thinking of the second mortgage field, more the

conventional mortgage field, and this suggestion that the banks might enter the second mortgage field is something new. We haven't given any consideration to it. In the first place we can't consider it, but if we were to consider it at all -- it hasn't been considered, no. The presence of a bank in a field like that, if they ever go into it, would probably, I would say, would probably have the same effect it has had in other areas. The competition would be keener and there would be a tendency towards lower interest rates certainly.

MR. MacDONALD: Thank you, Mr. Chairman.

MR. BELANGER: Mr. Chairman, I have often wondered, a person who wants to borrow, what incentive does one bank have against another? (Rest of statement inaudible). They are all doing business on the same terms of interest (rest inaudible) -- I often wonder how one bank or the other can compete. (Rest inaudible).

MR. LOFQUIST: Well, actually there is competition between banks as far as rates are concerned. Of course in the normal field of bank lending there is very little room for competition in rates because of the ceiling. There is a variation in virtually all the instalment credit loan plans. The banks don't follow a pattern. Each bank has practically it's own plan and there is a variation in rates. If a customer wants to shop around he can find great differentials.

MR. BELANGER: There is?

MR. LOFQUIST: Oh, yes. All the banks

have their own plans and the rates vary. But beyond that the individual banks, I am sure, like to think that it's their service. Sometimes you have a Branch Manager who has a little more expertise in lending and might be a little more daring than somebody else or a little better able to analyze a particular situation and decide that this particular person is worthy of credit. I think in any line of enterprise there are differences in the people that are serving you.

MR. BELANGER: I only have a couple of other points. One of them was answered by Mr. MacDonald there, why the banks do not do business in the second mortgage business. The other one is, do you believe that if the Small Loans Act (next few words inaudible) that it would abolish quite a bit of this high rate of interest being charged by some of these finance men?

MR. LOFQUIST: I don't quite follow you there. If the ceiling of the Small Loans Act were raised?

MR. BELANGER: (Inaudible)

MR. LOFQUIST: Oh, you mean the amount of the loan?

MR. BELANGER: Yes.

MR. MacDONALD: The same rate of interest obtained for a thousand plus, but there is no money loaned there. Isn't it a fact that there is practically no money loaned in the thousand to fifteen hundred because it is reduced a half a percent?

MR. LOFQUIST: I can't really answer

that, not operating under the Small Loans Act. I think perhaps you are going to have someone coming on later that -- I don't have access to these figures -- I would only be giving you a guess. I think perhaps you are going to have witnesses later who deal directly with that.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Mr. Chairman, Mr. Lofquist, do the banks advertise a personal loan for 6% rate of interest?

MR. LOFQUIST: No, sir.

MR. REILLY: They don't? So then if we have a false impression we have created it ourselves.

MR. LOSQUIST: I haven't seen any advertisement other than for an instalment credit plan loan. I have never seen any at a 6% rate. They use the term "low cost, life-insured loan" -- that being a relative thing, comparing it, perhaps, to other instalment credits available from other quarters. But I have not seen --

MR. REILLY: Just because the bank interest rate is restricted to 6% we have adopted the attitude that it is a 6% rate of interest for all, is this right?

MR. LOFQUIST: I think perhaps if you reach that conclusion that is what you must jump to. Some of the ads actually quote "plus service charge". My particular institution doesn't make a service charge. They have a different way of calculating, different procedure than some of those banks which do operate with

a service charge in addition to the interest, actually set out in the ad that there is a service charge.

THE CHAIRMAN: Mr. Lofquist, would you speak up a little bit? It's --

MR. LOFQUIST: Sorry.

MR. REILLY: Mr. Lofquist, there is one thing -- if you would care to give us an example of the five different situations that you have listed here, like maximum and minimum yield and an actuarial method and a direct ratio versus a constant ratio --

MR. LOFQUIST: Have I an example? Actuarial, of course, gives you the true rate. That involves calculations getting into about six or seven decimal places and one that might be beyond the powers of some people, I don't know. Here's an example of how the rate varies on a loan. Where the actuarial method would produce the cost rate to a customer -- here we are getting deep into decimal places -- of 11.579928. The minimum yield method would produce a rate of 11.18 -- this is a difference of almost one half of 1%. The maximum yield method would show 12.46. So there can be quite a wide spread, you see. The direct ratio method would be about 11.58 and the constant ratio 11.78. Now you see of all those the direct ratio is the closest to the actuarial without getting into the decimal places.

MR. REILLY: And the contrast shows here with a minimum yield of 11.18 to a maximum of 12.46, which is only maybe a point and a half altogether, all five methods, is that right?

[illegible]

MR. LOFQUIST: Yes, but that can be a very important figure on a loan of any amount running over a period of time. If the loan, say, were $1,000 running for three years, this 1% begins to bulk fairly large.

MR. REILLY: Oh, granted --

MR. IRWIN: Mr. Chairman, may I make one comment? I would think that in this illustration we run from 11.18 under the minimum method -- minimums and maximums are, of course, evaluations of yield -- taking the ratio methods you would only be out .2 --

MR. LOFQUIST: Very close.

MR. IRWIN: One fifth of 1%. Now that might truly amount to a lot on a $10,000 loan, but I think that this Committee and the legislature is more concerned with that a person would know that they were paying 11% as opposed to 18.

MR. LOFQUIST: Right.

MR. IRWIN: This then becomes very significant. Sorry, Mr. Reilly.

MR. REILLY: That's the point I was trying to establish, that's all.

THE CHAIRMAN: Mr. Letherby?

MR. LETHERBY: My only comment, Mr. Chairman, is this -- I think Mr. Lawrence, Mr. Bukator, Mr. MacDonald were all going along with the thought that you had, Mr. Irwin, that all various lending societies and groups have their own particular formula and it does not seem to be possible -- at least we haven't discovered any method -- whereby we could have a standardized

formula.

MR. MacDONALD: Mr. Irwin suggests you might have a half dozen.

MR. LETHERBY: Yes. But we have been so confused and so befuddled and loaded up with formulas that come in here that I thought your point was well taken, Mr. Irwin. Surely some expert group that had brains and a little bit of common sense could hammer out some system whereby a common denominator could be set up so people could know what the cost of credit is. That is the purpose of this Committee. That's my only observation.

MR. IRWIN: Mr. Chairman, again I am sorry to detain us here, but it wouldn't matter, Mr. Letherby, if the legislature or a group of experts -- it wouldn't really matter if they came up with the actuarial method of the direct ratio method or the constant ratio method or any method, providing it applied universally, because then the comparison would be exactly the same and if you have, let us say for example, six standard types of instalment contracts, no others, you just had those, then it would be quite easy by electing one method for calculating the interest to have a comparison in each of those six categories for the credit shopper within a half of 1%.

MR. LOFQUIST: I think it's possible.

THE CHAIRMAN: Are there any other questions?

MR. LAWRENCE: On these smaller loans the quote "carrying charges" of the banks are pretty

high. Do you consider it fair, if any such formula is devised, for these so-called carrying charges to be thrown in?

MR. LOFQUIST: Well, if you are going to devise a formula, all charges should be included in it, otherwise it seems useless. Certainly the bank charges, other than interest on the loan, should be included.

MR. IRWIN: Mr. Chairman, this point, in my view, is a very important one that Mr. Lawrence made because (rest of statement inaudible). In my view it is the total cost of money that we want to develop into a rate percent. If you allow carrying charges to be treated as something else (rest inaudible)

MR. LOFQUIST: I don't think it should be treated as something else. What you are looking for is what the effective cost rate of the borrower is. Now this cost rate may include an interest component and the carrying charge but I think it is important as far as the borrower is concerned to have the consolidation of both to know what his effective cost rate is. Otherwise you are comparing nothing.

MR. IRWIN: (Inaudible)

MR. LOFQUIST: Well, there are risk factors and protest and investigation costs and so forth in addition to the true cost of money as interest. But these things should certainly be lumped together to arrive at the effective cost rate to the borrower.

MR. IRWIN: I am very glad to hear you say so.

[illegible]

MR. LAWRENCE: Yes, especially so when the popular impression is that the banks are only interested in 6%, whereas I think you said under the actuarial method you have computed that it can be really 10 to 12.5%?

MR. LOFQUIST: I didn't say 12.5, I said 11.4.

MR. LAWRENCE: 11.4 -- with the actuarial method?

MR. LOFQUIST: That's right, the actuarial method.

MR. LAWRENCE: Does that include the costs --

MR. LOFQUIST: That's including all our costs. That includes the cost of life insurance and any other costs --

MR. LAWRENCE: The whole works?

MR. LOFQUIST: That's right.

THE CHAIRMAN: We are now going to be presented with another brief -- put on another half.

MR. LOFQUIST: Do I get time to walk around the chair and have a cigarette?

THE CHAIRMAN: Yes, sure.

---SHORT RECESS

THE CHAIRMAN: As I mentioned earlier, Mr. Lofquist is Manager of the Consumer Credit Department of the Canadian Imperial Bank of Commerce. He is now going to present to us a brief on behalf of the bank.

MR. LOFQUIST: I am going to try to improve on my delivery a little bit for the benefit of

those in the back of the room. I understand I haven't been heard too well.

THE CHAIRMAN:: Well, I think probably we can hear -- our system isn't all that it should be and sometimes it doesn't pick up the way it should.

MR. LOFQUIST: I'll get misquoted. (laughter).

THE CHAIRMAN: Carry on.

MR. LOFQUIST: Right. "A study of loan facilities available to the public through chartered banks was made by The Canadian Bank of Commerce in 1935 with particular attention being given to services to individuals for their personal needs. The study indicated that although all banks followed the practice of making loans to individual borrowers, as a general rule, such loans were made either to people of financial substance or to those who, while having no financial resources of consequence, were known to banks and in the community as responsible people and good credit risks. The latter group consisted largely of wage earners or salaried people but it seemed evident that they represented a minority of the many responsible people for whom a planned instalment loan service would be a genuine aid in the management of their affairs and whose character and sense of obligation were such that they could safely use a service of this type. It was, therefore, decided to establish instalment loan facilities for this group.

"To be useful to the public the service had to be widely available, yet it was recognized that

there would be a tendency for branch managers to shy away from this new type of lending because of:

(a) risk of individual loss on loans where repayment was primarily dependent upon the continued employment and future earnings of borrowers,

(b) the small revenue from individual loans of modest amount although these loans normally involved acquisition and bookkeeping costs as large as or larger than loans of much greater amount and

(c) inadequate collection facilities for this type of business.

The plan, to be successful, had to be based on a large volume of individual loans. This was necessary to (a) diversify risks and reduce the percentage of uncollectible loans and (b) to achieve low unit costs which were essential to make the service available at the rates proposed. For a mass operation uniformity of procedure and treatment were also important. The organization to be provided thus required:

1. Ready availability of the service to the public throughout the branches of the Bank.
2. Facilities capable of processing a large volume of individually small loans.
3. Uniformity of treatment and procedure.
4. Centralized bookkeeping.
5. Centralized collection supervision.

To ensure that all these requirements were met centrally located Personal Loan Departments were organized and commenced operations in June, 1936. These Departments are located at Halifax, Montreal, Toronto, Winnipeg,

Calgary, and Vancouver.

METHOD OF OPERATION

"Each branch is equipped to receive applications for Personal Loans. At the outset, all applications were submitted along with supporting information to the central Personal Loan Departments for approval and in this way the branch was relieved both of responsibility for and collection of the loans. This was particularly important in the beginning in order to ensure uniform treatment of applications but with the development of experienced personnel in this field over the years, all branches are now authorized to immediately approve and make loans, under a fixed pattern, for the account of the central Departments which still perform the bookkeeping and collection functions and maintain supervision of lending policies and procedures.

"To make the service fill the purpose for which it was designed, branches were instructed that borrowers who could offer good security or otherwise qualify for an ordinary bank loan should have their needs served by the branch itself and not the Personal Loan Departments. At the outset of the Plan it was not possible under the Bank Act to take chattel mortgage security, the kind of security customarily taken by companies operating under the Small Loans Act and by sales finance companies (in their case conditional sales agreements), and it was therefore decided to require loans to carry the guarantee of one or two people apart from the borrower. The reason for this was not so much

to have an alternative source of repayment in case of default by the borrower, but rather based on the thought that (a) if a borrower unknown to the Bank did not have one or two friends willing to support his obligations there was need for caution and (b) a borrower who might otherwise default will more frequently maintain payments to avoid embarrassing a guarantor, or alternatively a guarantor will often see to it that a borrower pays when the Department's collection service is meeting difficulty. With the experience gained through the years, however, and the amendment in the Bank Act in 1954, which permitted banks to take chattel mortgage security, an increasing number of non-guaranteed loans has been made. During the Bank's fiscal year 1962 over 74% of the total number of loans made were non-guaranteed. Approximately 20% of the loans made were supported by chattel mortgage security, principally over automobiles. This means that over 54% of the loans made were without guarantee or chattel mortgage security.

SCALE OF CHARGES AND TERMS OF PAYMENT

"It was obvious that loans of this type would involve costs high in relation to amounts involved. These relate chiefly to acquisition costs, including the initial investigation of credit worthiness -- verification of the applicant's position, length of employment, steadiness of earnings and past credit record -- the arranging of security where taken and the administration of the credit over its entire term. It is necessary to have special personnel available to

process loan applications and to provide special facilities to deal with them. Because repayment of loans extends over periods as long as three years and is mainly dependent upon assurance of continued future income of the borrowers, close scrutiny of all applications, both approved and declined, is required. No loan is refused without extensive investigation and considerable effort is made to develop marginal applications to a basis for approval. These individual handling costs are substantial and must be recovered out of the overall revenue.

"A scale of charges was designed which was thought would cover operating costs with a margin of profit provided that the utmost care was used in controlling expenses. These charges were based on a discount rate of 6% per annum on loans payable up to twelve, eighteen, twenty-four, thirty and thirty-six months. The borrower is required to undertake to make equal monthly deposits in a savings account to provide an amount sufficient to pay the loan at maturity. Tables are attached that show the amount of discount charged for various loan amounts for different terms and the amount of the savings interest that is paid to the borrower at the conclusion of the loan. The cost of life insurance and out-of-pocket expenses for registration of chattel mortgage security (if any) are deducted from the savings interest payment.

"The discount rate of 6% has remained constant since the inception of the Plan while the rate of interest paid on the savings account has increased

from 1½% in 1936 to 3% today.

"If a loan is fully prepaid more than two weeks prior to maturity a rebate in full of the unearned discount, calculated on the whole amount of the note, is made to the borrower along with payment of applicable savings interest less cost of insurance.

NATURE AND SCOPE OF OPERATIONS

"With the exception of a few special arrangements, such as pay-later plans, under which the volume handled is relatively small, this Bank, under its Personal Loan Plan, operates on a direct basis with the borrower, that is, loans are not generated through a sales outlet either with or without the medium of floor plan financing. The amendment in the Bank Act referred to previously, however, coupled with the extension of maximum term in 1958 from twenty-four months to thirty-six months has enabled the Bank to accommodate a much wider range of customers, and aside from rate differentials these two factors have probably been the most important contributors to the increasingly important role the Bank plays in the financing of automobile purchases through the medium of direct loans to the buyers. The effect may be seen in the following table which classifies loans by purpose:

I wonder, do you want me to read that?

THE CHAIRMAN: That would be nice, right. Do you want to make any comments on that?

MR. LOFQUIST: Well, I think the one thing I might point out there is the large increase in the percentage of automobiles being financed, that is,

the proportion it forms of our total lending, is brought about by the fact, first that we can take security and second that extension to a three year term we're able to bring payments down to something that is within a borrowers compass and operating with two years they were just too heavy as far as monthly payment requirements.

MR. REILLY: There is more observation there, Mr. Chairman, in that number one, medical, dental and hospital has been reduced substantially from 1953 to 1962.

MR. LOFQUIST: That should leave me an opening for a very favourable comment. This is due to the good financial legislation. (Laughter)

MR. MacDONALD: My only complaint is that it's fourteen years late. (Laughter)

MR. LOFQUIST: (Does not read table, but it is put in here for the record)

Purpose	1953		1962	
	No.	Amount	No.	Amount
Medical, Dental and Hospital	10.69%	5.28%	3.0%	1.2%
Consolidation of Debts	12.47%	9.71%	12.6%	11.1%
Outside Loan Liquidation	3.83%	4.49%	4.0%	4.3%
Taxes,Real Estate Mortgages, Int. Insurance Premiums	4.98%	3.38%	3.7%	2.5%
House Improvement, Furnishings, etc.	26.69%	22.95%	17.0%	10.9%
Travel & Education	5.17%	2.67%	6.4%	3.2%
Clothing	1.49%	.60%	.7%	.2%

[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Purpose	1953 No.	1953 Amount	1962 No.	1962 Amount
Motor Cars	13.71%	20.65%	30.0%	38.4%
Miscellaneous	20.97%	30.27%	22.6%	28.2%
	100.00%	100.0%	100.0%	100.0%

"The type of borrower, classified by occupation, has changed little over the years, when considered in light of employment trends, as illustrated by the following table:" It hasn't changed too much. I think there has been some reclassification of employees.

(Chart not read, but put in for the record)

Occupation	1953 No.	1953 Amount	1962 No.	1962 Amount
Labourers & Artisans	52.93%	47.55%	42.1%	36.8%
Office, Clerical & Non-Manual	19.07%	17.29%	22.0%	18.9%
Foremen, Managers & Superintendents	14.65%	18.86%	17.3%	20.8%
Salesmen, Professionals, Teachers, Sundry	13.35%	16.30%	18.6%	23.5%
	100.0%	100.0%	100.0%	100.0%

"The increased costs of goods and services coupled with higher average gross income, thus increasing repayment ability, is reflected in the trend to a higher average loan amount. This is illustrated by the following table:" There again I would point out to you the significant growth in the amount of the loan.

(Table put in for the record although not read)

Face Amount	1953 No.	1953 Amount	1962 No.	1962 Amount
Under $100	3.12%	.45%	.73%	.05%
Between 100 & 200	18.15%	5.10%	5.41%	.65%

	1953		1962	
Face Amount	No.	Amount	No.	Amount
Between 200 & 500	40.71%	25.20%	20.01$	5.41
Between 500 & 1000	24.56%	32.64%	23.84%	13.71%
Between 1000 & 1500	9.28%	21.16%	18.10%	17.75%
Between 1500 & 2000	2.94%	9.72%	12.53%	17.79%
Between 2000 & 2500	1.04%	4.51%	9.17%	16.94%
Over 2500	.20%	1.22%	10.21%	27.70%
	100.00%	100.00%	100.00%	100.00%
Average Loan Amount	$515		$1,227	

MR. LETHERBY: Tell me, sir, you do a lot of lending on motor cars; have you any idea what your comparable rate of interest on automobiles would be with the ordinary finance company who finances cars? Is your rate comparable to theirs, or is it low or high?

MR. LOFQUIST: Well, I would say generally we fall below them, although I believe most of the finance companies today, in cases of A-1 risks on new cars will try to meet the bank rate.

MR. LETHERBY: Suppose I want to borrow money to buy a car. Would it be to my advantage to go to the bank?

MR. LOFQUIST: Naturally (laughter).

MR. REILLY: You would have to be a good risk.

MR. LOFQUIST: May I carry on?

THE CHAIRMAN: Carry on.

MR. LOFQUIST: "Generally the Bank, in entering into an instalment loan transaction, sets

it up on terms that will provide complete liquidation by way of equal monthly deposits out of the borrowers' income over a reasonable period and does not, in the original terms, contemplate refinancing although in the light of subsequent developments in the borrowers' affairs or needs this may prove necessary or beneficial. Terms extended may vary also according to purpose, that is, loans for medical, clothing and holiday purposes, in the borrowers' own interests, are not usually made for longer than twelve month terms. Similarly loans to meet other requirements are viewed in relation to purpose and prospect of recurrence of the outlay or expense. A comparative breakdown of loans by term appears in the following table." Here again I won't read it, but just point out to you the trend towards longer term loans which generally is brought about by our increased interest in the financing of automobiles where two and three year loans are more common.

	1953		1962	
Term	No.	Amount	No.	Amount
12 Months & Under	67.40%	43.05%	31.12%	11.77%
18 Months	23.08%	33.24%	18.33%	13.27%
24 Months	9.52%	23.71%	24.75%	27.10%
30 Months	-	-	9.38%	14.42%
36 Months	-	-	16.42%	33.44%
	100.0%	100.0%	100.0%	100.0%

"Of the loans made in the Bank's fiscal year 1962, 27.57% included some refinancing, the dollar amount of which amount to 12.76% of such loans.

DISCLOSURE OF CHARGES

"Proceeds of all loans are paid by cheque

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

on which appears particulars of the gross loan, discount deducted and net proceeds. At the conclusion of the contract, the payment of savings interest is also made by way of cheque from which is deducted cost of insurance and, in some cases, out-of-pocket expenses for registration of renewal chattel mortgages. Detailed statements are provided the borrower in the case of prepaid or refinanced loans.

EFFECTIVE RATES OF INTEREST

"There are five" -- we have covered this before --"There are five generally accepted methods of calculating effective rates of interest, each producing a different result. Under each method there is also a variation in result dependent upon the term of the loan. Further variations develop in the case of refinanced and prepaid loans, and, of course, effective rate depends also upon the performance of the individual borrower. While we have no objection per se to disclosing the effective rate of interest" -- this is what Mr. MacDonald was talking about and he's getting the same thing -- "there are so many variables that the application of any agreed formula would be exceedingly difficult to make in advance to an individual transaction with an acceptable degree of accuracy. In the overall picture the average effective cost rate to the borrower under the Personal Loan Plan during the Bank's fiscal year ending October 31, 1963 was approximately 9.92%." I'm sure that should read 1962 because we are not that up to date, so if you wouldn't mind changing it.

"It has been our general experience that

CANADIAN IMPERIAL BANK OF COMMERCE
Personal Loan Department
(1) TABLE OF LOAN AMOUNTS

12 MONTH LOANS

OX. PROCEEDS REQUIRED	LOAN	(2) NET PROCEEDS	MONTHLY DEPOSIT	(3) SAVINGS INTEREST
50	60	56.40	5	.68
60	72	67.68	6	.82
80	84	78.96	7	1.01
90	96	90.24	8	1.12
100	108	101.52	9	1.24
120	132	124.08	11	1.53
140	156	146.64	13	1.80
160	180	169.20	15	2.09
180	192	180.48	16	2.24
200	216	203.04	18	2.50
240	252	236.88	21	2.92
280	300	282.00	25	3.48
320	348	327.12	29	4.04
360	384	360.96	32	4.48
400	432	406.08	36	5.04
440	468	439.92	39	5.45
480	516	485.04	43	6.01
520	552	518.88	46	6.42
560	600	564.00	50	6.98
600	648	609.12	54	7.54
640	684	642.96	57	7.96
680	732	688.08	61	8.52
720	768	721.92	64	8.96
760	816	767.04	68	9.52
800	852	800.88	71	9.93
840	900	846.00	75	10.49
880	936	879.84	78	10.90
920	984	924.96	82	11.46
960	1,020	958.80	85	11.88
1,000	1,068	1,003.92	89	12.44
1,040	1,104	1,037.76	92	12.88
1,080	1,152	1,082.88	96	13.44
1,120	1,200	1,128.00	100	14,00
1,160	1,236	1,161.84	103	14.41
1,200	1,284	1,206.96	107	14.97
1,280	1,368	1,285.92	114	15.94
1,360	1,452	1,364.88	121	16.92
1,440	1,536	1,443.84	128	17.92
1,520	1,620	1,522.80	135	18.89
1,600	1,704	1,601.76	142	19.86
1,680	1,788	1,680.72	149	20.84
1,760	1,872	1,759.68	156	21.84
1,840	1,956	1,838.64	163	22.81
1,920	2,040	1,917.60	170	23.78
2,000	2,136	2,007.84	178	24.90
2,100	2,232	2,098.08	186	26.02
2,200	2,352	2,210.88	196	27.44
2,250	2,400	2,256.00	200	28.00

Loan calculations for amounts not shown can usually be found simply by adding two other amounts on the tables or alternatively by calculating the discount at the rate of 6% over the period of the loan.

The net proceeds are computed on the basis of the loan running for the exact number of months shown. If a specific dating is requested allowance should be made for extra days' interest.

Accrued savings interest on deposits at 3% per annum assuming perfect performance.

CANADIAN IMPERIAL BANK OF COMMERCE
Personal Loan Department
(1) TABLE OF LOAN AMOUNTS

18 MONTH LOANS

ROX. PROCEEDS REQUIRED	LOAN	(2) NET PROCEEDS	MONTHLY DEPOSIT	(3) SAVINGS INTEREST
160	180	163.80	10	3.40
180	198	180.18	11	3.75
200	234	212.94	13	4.43
240	270	245.70	15	5.12
280	306	278.46	17	5.80
320	360	327.60	20	6.85
360	396	360.36	22	7.51
400	450	409.50	25	8.54
440	486	442.26	27	9.23
480	522	475.02	29	9.91
520	576	524.16	32	10.96
560	630	573.30	35	11.97
600	666	606.06	37	12.65
640	702	638.82	39	13.34
680	756	687.96	42	14.36
720	792	720.72	44	15.07
760	846	769.86	47	16.08
800	882	802.62	49	16.76
840	918	835.38	51	17.45
880	972	884.52	54	18.47
920	1,008	917.28	56	19.18
960	1,062	966.42	59	20.19
1,000	1,098	999.18	61	20.87
1,040	1,152	1,048.32	64	21.92
1,080	1,188	1,081.08	66	22.58
1,120	1,242	1,130.22	69	23.61
1,160	1,278	1,162.98	71	24.30
1,200	1,314	1,195.74	73	24.98
1,280	1,404	1,277.64	78	26.69
1,360	1,494	1,359.54	83	28.41
1,440	1,584	1,441.44	88	30.14
1,520	1,674	1,523.34	93	31.83
1,600	1,764	1,605.24	98	33.54
1,680	1,854	1,687.14	103	35.26
1,760	1,944	1,769.04	108	36.99
1,840	2,016	1,834.56	112	38.36
1,920	2,106	1,916.46	117	40.05
2,000	2,196	1,998.36	122	41.76
2,100	2,304	2,096.64	128	43.84
2,200	2,412	2,194.92	134	45.87
2,250	2,484	2,260.44	138	47.24
2,400	2,628	2,391.48	146	49.98
2,500	2,754	2,506.14	153	52.38
2,600	2,862	2,604.42	159	54.44
2,700	2,970	2,702.70	165	56.49
2,800	3,078	2,800.98	171	58.55
2,900	3,186	2,899.26	177	60.60
3,000	3,312	3,013.92	184	63.02
3,100	3,420	3,112.20	190	65.05
3,200	3,528	3,210.48	196	67.13
3,300	3,618	3,292.38	201	68.82

Loan calculations for amounts not shown can usually be found simply by adding two other amounts on the tables or alternatively by calculating the discount at the rate of 6% over the period of the loan.

The net proceeds are computed on the basis of the loan running for the exact number of months shown. If a specific dating is requested allowance should be made for extra days' interest.

Accrued savings interest on deposits at 3% per annum assuming perfect performance.

CANADIAN IMPERIAL BANK OF COMMERCE
Personal Loan Department
(1) TABLE OF LOAN AMOUNTS

24 MONTH LOANS

ROX. PROCEEDS REQUIRED	LOAN	(2) NET PROCEEDS	MONTHLY DEPOSIT	(3) SAVINGS INTEREST
240	288	253.44	12	7.62
280	312	274.56	13	8.22
320	360	316.80	15	9.50
360	408	359.04	17	10.76
400	456	401.28	19	12.04
440	504	443.52	21	13.30
480	552	485.76	23	14.58
520	600	528.00	25	15.84
560	648	570.24	27	17.12
600	696	612.48	29	18.38
640	744	654.72	31	19.66
680	768	675.84	32	20.32
720	816	718.08	34	21.56
760	864	760.32	36	22.86
800	912	802.56	38	24.10
840	960	844.80	40	25.40
880	1,008	887.04	42	26.64
920	1,056	929.28	44	27.94
960	1,104	971.52	46	29.18
1,000	1,152	1,013.76	48	30.48
1,040	1,176	1,034.88	49	31.08
1,080	1,224	1,077.12	51	32.36
1,120	1,272	1,119.36	53	33.62
1,160	1,320	1,161.60	55	34.90
1,200	1,368	1,203.84	57	36.16
1,280	1,440	1,267.20	60	38.10
1,360	1,536	1,351,68	64	40.64
1,440	1,632	1,436.16	68	43.18
1,520	1,728	1,520.64	72	45.72
1,600	1,824	1,605.12	76	48.26
1,680	1,920	1,689.60	80	50.80
1,760	1,992	1,752.96	83	52.68
1,840	2,088	1,837.44	87	55.22
1,920	2,184	1,921.92	91	57.76
2,000	2,280	2,006.40	95	60.30
2,100	2,400	2,112.00	100	63.50
2,200	2,496	2,196.48	104	66.04
2,250	2,568	2,259.84	107	67.92
2,400	2,736	2,407.68	114	72.36
2,500	2,856	2,513.28	119	75.54
2,600	2,976	2,618.88	124	78.74
2,700	3,072	2,703.36	128	81.28
2,800	3,192	2,808.96	133	84.42
2,900	3,312	2,914.56	138	87.60
3,000	3,408	2,999.04	142	90.14
3,100	3,528	3,104.64	147	93.32
3,200	3,648	3,210.24	152	96.52
3,300	3,768	3,315.84	157	99.66
3,400	3,864	3,400.32	161	102.20
3,500	3,984	3,505.92	166	105.38

Loan calculations for amounts not shown can usually be found simply by adding two other amounts on the tables or alternatively by calculating the discount at the rate of 6% over the period of the loan.

The net proceeds are computed on the basis of the loan running for the exact number of months shown. If a specific dating is requested allowance should be made for extra days' interest.

Accrued savings interest on deposits at 3% per annum assuming perfect performance.

CANADIAN IMPERIAL BANK OF COMMERCE
Personal Loan Department
(1) TABLE OF LOAN AMOUNTS

30 MONTH LOANS

ROX. PROCEEDS REQUIRED	LOAN	(2) NET PROCEEDS	MONTHLY DEPOSIT	(3) SAVINGS INTEREST
360	420	357.00	14	14.21
400	480	408.00	16	16.28
440	510	433.50	17	17.26
480	570	484.50	19	19.30
520	600	510.00	20	20.35
560	660	561.00	22	22.35
600	720	612.00	24	24.42
640	780	663.00	26	26.42
680	810	688.50	27	27.44
720	840	714.00	28	28.49
760	900	765.00	30	30.49
800	960	816.00	32	32.56
840	990	841.50	33	33.54
880	1,050	892.50	35	35.58
920	1,080	918.00	36	36.63
960	1,140	969.00	38	38.63
1,000	1,170	994.50	39	39.65
1,040	1,230	1,045.50	41	41.68
1,080	1,260	1,071.00	42	42.70
1,120	1,320	1,122.00	44	44.77
1,160	1,380	1,173.00	46	46.77
1,200	1,410	1,198.50	47	47.79
1,280	1,500	1,275.00	50	50.84
1,360	1,590	1,351.50	53	53.89
1,440	1,710	1,453.50	57	57.96
1,520	1,800	1,530.00	60	61.05
1,600	1,890	1,606.50	63	64.07
1,680	1,980	1,683.00	66	67.12
1,760	2,070	1,759.50	69	70.17
1,840	2,160	1,836.00	72	73.26
1,920	2,280	1,938.00	76	77.33
2,000	2,370	2,014.50	79	80.35
2,100	2,460	2,091.00	82	83.40
2,200	2,580	2,193.00	86	87.47
2,250	2,640	2,244.00	88	89.54
2,400	2,820	2,397.00	94	95.61
2,500	2,940	2,499.00	98	99.68
2,600	3,060	2,601.00	102	103.75
2,700	3,180	2,703.00	106	107.82
2,800	3,300	2,805.00	110	111.89
2,900	3,420	2,907.00	114	115.96
3,000	3,540	3,009.00	118	120.03
3,100	3,660	3,111.00	122	124.10
3,200	3,780	3,213.00	126	128.17
3,300	3,900	3,315.00	130	132.24
3,400	4,020	3,417.00	134	136.31
3,500	4,140	3,519.00	138	140.38

) Loan calculations for amounts not shown can usually be found simply by adding two other amounts on the tables or alternatively by calculating the discount at the rate of 6% over the period of the loan.

) The net proceeds are computed on the basis of the loan running for the exact number of months shown. If a specific dating is requested allowance should be made for extra days' interest.

) Accrued savings interest on deposits at 3% per annum assuming perfect performance.

CANADIAN IMPERIAL BANK OF COMMERCE
Personal Loan Department
(1) TABLE OF LOAN AMOUNTS

36 MONTH LOANS

[cut off]OX. PROCEEDS [cut off]REQUIRED	LOAN	(2) NET PROCEEDS	MONTHLY DEPOSIT	(3) SAVINGS INTEREST
440	540	442.80	15	22.31
480	576	472.32	16	23.84
520	648	531.36	18	26.78
560	684	560.88	19	28.27
600	720	590.40	20	29.80
640	792	649.44	22	32.74
680	828	678.96	23	34.23
720	900	738.00	25	37.20
760	936	767.52	26	38.70
800	972	797.04	27	40.19
840	1,044	856.08	29	43.16
880	1,080	885.60	30	44.66
920	1,116	915.12	31	46.15
960	1,188	974.16	33	49.12
1,000	1,224	1,003.68	34	50.62
1,040	1,260	1,033.20	35	52.11
1,080	1,332	1,092.24	37	55.08
1,120	1,368	1,121.76	38	56.58
1,160	1,404	1,151.28	39	58.07
1,200	1,476	1,210.32	41	61.04
1,280	1,584	1,298.88	44	65.56
1,360	1,656	1,357.92	46	68.50
1,440	1,764	1,446.48	49	72.96
1,520	1,872	1,535.04	52	77.48
1,600	1,944	1,594.08	54	80.42
1,680	2,052	1,682.64	57	84.88
1,760	2,160	1,771.20	60	89.40
1,840	2,268	1,859.76	63	93.83
1,920	2,340	1,918.80	65	96.80
2,000	2,448	2,007.36	68	101.32
2,100	2,556	2,095.92	71	105.75
2,200	2,700	2,214.00	75	111.71
2,250	2,736	2,243.52	76	113.24
2,400	2,916	2,391.12	81	120.64
2,500	3,060	2,509.20	85	126.60
2,600	3,168	2,597.76	88	131.12
2,700	3,312	2,715.84	92	137.08
2,800	3,420	2,804.40	95	141.51
2,900	3,528	2,892.96	98	145.98
3,000	3,672	3,011.04	102	151.94
3,100	3,780	3,099.60	105	156.40
3,200	3,924	3,217.68	109	162.36
3,300	4,032	3,306.24	112	166.88
3,400	4,140	3,394.80	115	171.31
3,500	4,284	3,512.88	119	177.27

Loan calculations for amounts not shown can usually be found simply by adding two other amounts on the tables or alternatively by calculating the discount at the rate of 6% over the period of the loan.

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Accrued savings interest on deposits at 3% per annum assuming perfect performance.

the average borrower is more interested in the dollar amount of charges and the amount of the monthly payment required than he is in the effective cost rate. In every case the borrower under the Personal Loan Plan is fully informed of the cost to him."

I would not think you would want me to deal with the Tables --

THE CHAIRMAN: Not unless you have some comment to make on it.

MR. LOFQUIST: No particular comment, no.

THE CHAIRMAN: Do you have any questions, Mr. Sedgwick? Mr. Irwin, do you have any questions?

MR. IRWIN: Yes, Mr. Chairman. Mr. Lofquist, I am going to reopen the discussion on your first brief -- I feel we didn't get somewhere in that regard. But on page 8 there is one other aspect of it and that is the suggestion that the average borrower is more interested in the dollar amount of the charge and monthly payment. Well this -- this is just a personal view here, a personal observation -- this is probably true, but the year's statement of the total dollar cost of the money does really not provide to the borrower a term of reference which he can readily compare with the cost of money elsewhere. The rate of interest he can because of his grade school education, he has some conception of what a rate of interest is -- 6% per annum means to him $6.00 for every hundred borrowed for an entire year. But just quote him an amount -- say you are going to pay $6.00 for this money doesn't really amount to a term of reference which, I suggest,

his education wouldn't fit him to interpret. Would you agree with that?

MR. LOFQUIST: You are probably correct. He still has the same opportunity to compare with some other lender who would charge him for the same amount of dollars for the same term and compare it on a dollar basis. It's unfortunate that an awful lot of borrowers -- it's a sad thing actually -- are not concerned with the rate of interest they are paying but only can I fit this monthly payment into my budget.

MR. IRWIN: Well, I have the thought that they might be concerned if they did know what they were paying in terms of a rate of interest.

MR. LETHERBY: Well suppose, Mr. Irwin, you said to a man, "Now this is going to cost you X amount of dollars" -- say $12.00 or 12%. Spell it out, spell it in per cent. It's as simple as can be.

MR. IRWIN: Oh, absolutely. It's just that again one of the common suggestions you meet --

MR. LETHERBY: Oh, I go along with you, sir, (rest of sentence inaudible).

MR. REILLY: I'm sorry but I have to disagree with both of them, Mr. Chairman,because as far as I am concerned I know what it costs me per dollar rather than by percent and I think most people who go to buy something, if you tell them it's going to cost them X number of dollars, they know what it is going to cost them per dollar, not by basis of percentage.

MR. LETHERBY: We say though both ways. Give them the dollar business and then give them their

percent -- he's got two fields now, both the same thing.

MR. IRWIN: I think the point, if I may belabour this, -- it's just dandy to think in terms of a per dollar cost, as Mr. Reilly suggests, but in effect, when he says per dollar cost he is talking about a rate of interest and it is one thing to compare borrowing $100 from this person for a cost of $10.00 and borrowing $127.15 from that person at $15.00. I mean, you're lost. You have got to make the calculations then to make a dollar comparison between these two and this is where the difference comes in. If you were always borrowing $100 from this man in terms of $100 you borrowed from that man, it probably would be fine. But you are not. You are borrowing, as I say, odd figures.

MR. REILLY: Under those circumstances, Mr. Irwin, if I wanted to borrow $127.15 and I knew it was going to cost me $15.00, I'd decide whether I wanted to pay $15.00 for the use of the money. I know exactly what it is going to cost me.

MR. LETHERBY: Tell him the $15.00 and say that represents so much percent. He's got it both ways. Maybe he likes percent and he hates dollars. Maybe he likes dollars and hates percent.

MR. MacDONALD: But the problem is it doesn't give him -- I think the point that I disagreed with -- it doesn't give him a yardstick which is the most acceptable yardstick. It's like the housewife who goes in and tries to compare what the cost is when she buys a certain kind of detergent. One is 15½ ounces

and she pays 54¢ and then she goes to another one and it's 18 ounces and she is paying 62¢. She would need a slide rule to figure out which one is a better buy.

MR. REILLY: Most women are pretty good shoppers (laughter).

MR. MacDONALD: They just buy it and they don't know that they are --

MR. REILLY: Not my wife.

MR. MacDONALD: I'm not going to criticize your wife (laughter).

THE CHAIRMAN: Mr. Lawrence, do you have a question?

MR. LAWRENCE: None of the banks put any interest rate in their advertising -- does it include any interest rate in any other material?

MR. LOFQUIST: In our advertising folder we say that you pay 6% discount deducted in advance and we outline what your method of repayment is.

MR. LAWRENCE: 6%.

MR. LOFQUIST: And we show a table on the back --

MR. LAWRENCE: Deducted in advance.

MR. LOFQUIST: Yes, that's right.

MR. LAWRENCE: Nobody knows exactly --

MR. LOFQUIST: How are they going to interpret all the other expressions if they don't know what 6% deducted in advance is?

MR. LAWRENCE: Was the Commerce the bank that you referred to in your brief as far as the

one started the Personal Loan business?

MR. LOFQUIST: Yes, the Commerce started in 1936.

MR. LAWRENCE: That was before the other chartered banks?

MR. LOFQUIST: It took a little while. 1958 was the first other member in the field.

MR. LAWRENCE: This was just the Personal Loan Department -- there is still a great deal of credit extended by the banks by way of overdraft systems or --

MR. LOFQUIST: Not overdrafts so much. I think perhaps you are talking about loans to individuals -- the overdraft is pretty well passe, but individual loans, yes, still the greatest proportion of our loans to individual borrowers is at a regular branch level, not through --

MR. LAWRENCE: Would you call them small loans or what?

MR. LOFQUIST: Well, they could be called demand return loans. You may talk about them as regular in describing those, which would be at a rate of 6%.

MR. LAWRENCE: Could you give us any estimate of -- say in your credit business as such, just how it breaks down. Do you do by far the largest business --

MR. LOFQUIST: By far the largest is at direct branch level and not under the personal credit plan.

MR. LAWRENCE: And does that include the overdrafts?

MR. LOFQUIST: Such overdrafts as are still extant. As you probably know the banks have generally been restricting the overdraft privilege almost to the point of extinction, which was a matter of considerable discussion in Ottawa earlier in the year.

MR. LAWRENCE: What is the average rate you are getting on (last word inaudible)?

MR. LOFQUIST: I couldn't tell you what the average is, but the maximum is 6%. A good many loans might be secured and a good many of them again would not be secured. They might be made to a very fine risk for a short term. A lot of people come in and only want to borrow for two or three months and want to pay back the whole sum at the end of that period. They are good risks and they have no particular need to go under a monthly payment program because it doesn't suit their purse.

MR. LAWRENCE: The maximum is 6% -- (rest of sentence inaudible)

MR. LOFQUIST: Well, that's permissible in the Bank Act. It's spelled out in the Bank Act as a discount, by way of discount, 6% discount.

MR. LAWRENCE: But not in advance?

MR. LOFQUIST: May be. But in this case --

MR. LAWRENCE: What I am trying to find out here now is, if the rate is 6% is there not a difference between your Personal Loan Department and --

MR. LOFQUIST: Well surely -- as we told you --

MR. LAWRENCE: -- the majority of credit advanced --

MR. LOFQUIST: Yes. As I told you in the Bank's brief the average rate of return to the bank during 1962 -- and this is gross rate of return under the Personal Loan Plan -- was 9.92% whereas it can't be more than 6% under the branch type of loan.

MR. BUKATOR: Well then, just to follow up on that -- I have been operating under an illusion --

MR. LOFQUIST: I can't hear you, Mr. Bukator.

MR. BUKATOR: I got the impression -- you talk about deducting the 6% on the date of borrowing your money, but this is not the demand note where a man walks in and borrows $1,000 --

MR. LOFQUIST: That's right.

MR. BUKATOR: Then he gets the $1,000 and in six months time he comes back and pays $1,030?

MR. LOFQUIST: Well, generally under a demand loan he pays the interest on a monthly basis. At the end of each month he will pay the interest.

MR. BUKATOR: But on that particular note he pays nothing more than just the 6%?

MR. LOFQUIST: He's paying a straight 6%. Where the discount is deducted in advance in a branch loan the rate may actually work out to about 6.1 or something like that.

MR. BUKATOR: But it must be a secured

risk?

MR. LOFQUIST: Not necessarily secured but it would be a first-class risk, which is dependent on other things than just mere continued income.

MR. BUKATOR: But the ordinary loan is 6% deducted in the first instance and then they take the percent on a monthly basis off their account?

MR. LOFQUIST: Well, there are three types of loans. There might be the loan where 6% is deducted in advance -- that is quite rare, actually, because customers are quite astute. A good many of the loans are on a demand basis where he pays interest monthly. Some are time notes, where he borrows money for two months and the amount of interest is added to the note which he pays at maturity.

MR. MacDONALD: Do banks have a standard procedure?

MR. LOFQUIST: You mean as between banks?

MR. MacDONALD: No. Well as between branches, or even in the same bank?

MR. LOFQUIST: Well, we have a standard procedure, yes, within the bank, yes. All banks naturally have standard procedures.

MR. MacDONALD: Well, when you said (next part of sentence inaudible) -- what if it's renewed? The procedure in the first instance, where you get the full value of the loan, a note, for instance, --

MR. LOFQUIST: A note?

MR. MacDONALD: Yes. When it is renewed

the money you got for the value of the note minus the interest -- now there has been a change of bank managers in the interval -- but I was intrigued by this different procedure that emerged.

MR. LOFQUIST: Well, procedures should be standard, but you can't account for what an individual may do from time to time. In fact, one of the strengths of the bank is that all our managers aren't stamped out of the same pattern. They are individual operators. But generally speaking there are standard procedures.

MR. MacDONALD: Mr. Chairman, the other question I wanted to ask Mr. Lofquist -- What is your procedure with coping with an instalment repayment on a personal loan if the person, for example, loses their employment?

MR. LOFQUIST: Well, generally we are understanding about things like this. In the case of some of these areas that have been strikebound, for instance, we simply defer all instalments until the man goes back to work again and then sit down and figure out a refinance program. For instance in Sudbury, when the Nickel strike was on there for a period, I think immediately they went back to work our Manager up there must have been busy for a month just restaking these chaps.

MR. MacDONALD: In effect, there is a moratorium?

MR. LOFQUIST: In effect there is a moratorium.

MR. MacDONALD: I was rather interested

that the one group in which there has been a rather significant drop in the occupation group is the labourer and artisan group.

MR. LOFQUIST: Well, that may be partly because of automation, I don't know. But it isn't selective on our part. It may be that there is a proportionately smaller labour force. I don't know. I haven't examined those statistics but it isn't as the result of any selective policy pursued by us because we have found them, generally speaking, very good risks.

MR. IRWIN: It could be merely a statistical decline too.

MR. LOFQUIST: Yes, that's what I had in mind. It's not the policy --

MR. MacDONALD: There is more people going out to salesmen because there is more salesmen -- more money going out to salesmen because there are more salesmen.

MR. LOFQUIST: Yes.

THE CHAIRMAN: Mr. White, do you have any questions?

MR. WHITE: Are these tables provided for your branch managers?

MR. LOFQUIST: The branch managers do all the calculations. We don't provide them with the savings interest table because they don't -- as you probably remember in our brief, we centralized so all the bookkeeping and all the refunds and everything are done at the central department so that savings interest table is of no particular use to the manager

[illegible]

since he doesn't use it in calculations. If someone wants to know what your approximate rebate will be the manager can generally give him a pretty good idea of it.

MR. WHITE: If the loan is prepaid --

MR. LOFQUIST: If the loan is prepaid there is a rebate on the full amount of the note.

MR. WHITE: And that would be computed in your --

MR. LOFQUIST: In the central department, yes, who carry all the bookkeeping on it and they mail him out a cheque for it.

MR. MacDONALD: Including insurance?

MR. LOFQUIST: Pardon?

MR. MacDONALD: Including the insurance -- is there a rebate on the insurance?

MR. LOFQUIST: Well, there is a rebate on the insurance if the loan is prepaid, yes.

MR. WHITE: Now, presuming that you are provided with a simple formula to define true interest, would it be difficult to have that information included on these tables used in credit offices, inserted in the appropriate --

MR. LOFQUIST: I think you will remember when I was dealing with questions after the C.B.A. brief, I said, as far as banks operations are concerned, because there is such a uniformity in their individual plans, there would be no great difficulty in applying any formula to it in advance. I think where your greatest difficulty-- I am just offering this

as a suggestion -- might come in the retail transactions.

MR. WHITE: Well, in my experience with Commercial Paper, if the loan is out of the ordinary -- if, for instance, the monthly payments or weekly payments are other than uniform, the retailer concerned has to get in touch with a finance company to find out what the interest charges should be involving some rather complex mathematics. Also if there are balloon payments involved (rest of sentence inaudible). So in view of the fact that a retailer has to consult an expert to get the cost, I suggest, Mr. Chairman, that also the reatiler, that is, can also get the cost as a rate of interest. I think that the difficulties are being overstated.

MR. IRWIN: Mr. Chairman, I have a couple of other questions. In arriving at your 9.92 average gross return on the personal loans and comparing that with what would appear to be, let's say, your average on ordinary commercial and other personal loans of 6% gross, there is a difference of 3.92% or, say, 4%. Would it be asking too much to ask you to break that 4% down. For example, in some places you refer to the higher loss, so there is a reserve element in this 4%. You refer elsewhere to extra personnel, the more complicated and more exacting procedures and because they have to be repeated in regard to so many small loans that the cost per dollar of the loan goes up. Would the whole 4% be accounted for that by those extra costs?

MR. LOFQUIST: Well, in the first place

that 9.92 figure there includes cost of insurance which is made out-of-pocket, that it turned over to the insurance company that covers it. So that takes a fair piece out of the 9.92. Other investigation costs and bookkeeping costs, special personnel would take up a large proportion of it. I'll come this close, I'll say the net operations on this, before losses, are somewhat more profitable than ordinary branch loans.

MR. IRWIN: In other words you are getting, and you are entitled to get, you do intend or hope to get a higher yield from this type of loan, net yield, than you do other ordinary loans?

MR. LOFQUIST: Yes, there is a somewhat higher net yield.

MR. IRWIN: One other question. If the question of the risk of loss on the small loans is also emphasized by most credit granting -- but I understand that, in fact, that the loss ratio is very, very low in the consumer credit field, including your bank losses.

MR. LOFQUIST: Our loss ratio is reasonably low, yes.

MR. IRWIN: Would it be fair to suggest that maybe the amount included as a reserve factor as a part of the cost of money would be high in relation to actuality?

MR. LOFQUIST: No. I think our reserve factor is reasonable in relation to our loss and to our standings. Particularly when you consider that the greatest percentage of growth has taken place in the last

four years. There has been a very strong, remarkable expansion under what, I think most of you would agree, has been rather favourable employment conditions and a buoyant economy. And I think our reserves are very reasonable in relation to the amount of total outstandings and the fact that all of these are -- yes, all of them -- are dependent on the future earnings of customers ranging ahead as far as three years. This is a risk factor we have to consider. We have been very fortunate in this operation, as have all other extenders of instalment credit, during the last 10, 12, 13 years, apart from minor fluctuations and some distress in particular areas. It has been a buoyant economy.

MR. IRWIN: Yes. It has been advanced, by some quarters at any rate, in defence of high rates of interest or rates of cost of money, that it is a considerable necessity for setting aside a reserve, for a large part of the 18 or 20% cost of money is for reserve, 5%, let's say. And yet, in fact I understand, that the actual rate of losses in relation to the total amount loaned is something like less than half of 1%?

MR. LOFQUIST: I am not familiar with the loss ratios in the other industries, that is the small loan companies, finance companies. I think perhaps in the last couple of years you might find that the losses of some of the finance companies have been a little higher.

MR. IRWIN: I think my figures are three years old.

[illegible]

[illegible]

[illegible]

[illegible]

MR. LOFQUIST: Judging by some of the financial statements I have seen recently, I would think some of the finance companies have run into a few losses that might have increased that ratio.

MR. IRWIN: I admit that my figures are a bit out of date.

MR. SEDGWICK: I have a question that I would like a comment on. (Question inaudible)

MR. LOFQUIST: I think it would be a fair assumption that this would follow, it would be a competitive advantage of course.

MR. SEDGWICK: (Inaudible)

MR. MacDONALD: (First part of statement inaudible) -- you might have to throw over disclosure, even though banks come under federal. If the Province passed legislation saying everything must be disclosed you say the banks could, if they so desire.

MR. SEDGWICK: I don't like to argue it here, but (rest of sentence inaudible).

MR. LAWRENCE: What angle could control the advertising of the banks?

MR. SEDGWICK: Well, you know it would be (rest of sentence inaudible)

MR. LETHERBY: Here's a point, Mr. Sedgwick. It might be that the banks could get their competitors to show their interest even though they are not compelled to do so.

MR. SEDGWICK: Even though --

MR. LETHERBY: It would bring in extra business.

MR. SEDGWICK: That's right.

MR. LAWRENCE: That's what maybe their interest rate now is doing?

MR. SEDGWICK: It may well be (laughter).

THE CHAIRMAN: Mr. Belanger?

MR. BELANGER: Well, a good part of what I wanted to ask has been covered by Mr. Irwin here. I was going to ask you if you did know the percentage of loss that you have had in personal loans?

MR. LOFQUIST: There are no published figures, sir.

MR. BELANGER: They are not published figures. I know it's not a very high rate, but it's a low rate of what?

MR. LOFQUIST: I'd say it's a reasonable rate. (Laughter)

MR. BELANGER: Well, there's another question along the same line. That, in comparison to commercial loans -- would you say the rate of commercial loans is higher than that -- the loss?

MR. LOFQUIST: I actually am not in a position to make a comparison because I am not privy to that figure. I can't honestly answer it.

MR. BELANGER: Well now, this is left entirely to the individual bank manager whether this person can not carry out his payments, or is that left, say, to the main branch in these various cities that you mentioned there, or what?

MR. LOFQUIST: We operate through a central deparmtnet and collection procedures are

followed there. If there is a great distance involved the manager of the central department will enlist the assistance of a local manager and if the local manager finds there is some reason -- sometimes you find the chap is just in a temporary spot and if you postpone one monthly payment for him it solves his difficulty. Sometimes he requires refinancing. Sometimes he is simply in a temporary period of unemployment. We feel these things on their merits. Sometimes he's a deadbeat and then you have to take collection procedures. But certainly we wouldn't proceed from the central department without discussing it with the local manager who is on the scene.

MR. BELANGER: The reason I'm saying this -- (next few words inaudible) -- a firm that has been in business, we will say, for a period of 35 years or more and they have a number of contracts ahead of them to carry on their work. One particular contract that encountered some difficulty (next few words inaudible) -- and irregardless of whether or what they say to the bank manager, they forced them to close. It was unfortunate because they were employing quite a number of people. What is it that makes banks act the way they do in certain cases?

MR. LOFQUIST: Well I think, unfortunately, when you are discussing things like this -- and I have often been placed in this unfortunate position when I was a branch manager myself -- what appears to someone on the outside who doesn't know the internal affairs of that company is quite a different picture to

[illegible]

what is actually going on. I remember customers coming into my office and say, "Why did you close up poor old Joe, he's a great guy". Well, I could have been officiating at his funeral because every day he went on he was losing what little bit of money he had left and it was in his own best interest to get out. I couldn't disclose this confidential information to the person who comes in and asks, so he goes away thinking I'm a hard hearted person who is putting this man out of business. And it was actually in his best interest. Now this may not always be the case, but in many cases people only know one side of the story and the banker is unable to defend himself because he has a confidential relationship with his customer and he can't say, "If you knew what I know about Joe you wouldn't be in here complaining about the way I am treating him".

MR. IRWIN: Mr. Chairman, I wasn't going to get into this argument, but I will let you know you have a friend in court. I agree that the bank manager often has knowledge which couldn't possibly be --

MR. BELANGER: I happened to know that contractor for a number of years. I knew the people who were in charge of it and I knew the contractor -- (rest of sentence inaudible)

MR. LOFQUIST: Well, without knowing anything about it I couldn't very well comment on the case. But if it were a large credit it certainly wouldn't be the branch manager operating on his own. It would have been analyzed by other people as well.

THE CHAIRMAN: Mr. Sandercock?

MR. SANDERCOCK: I think everything has been asked pretty well that I had in mind.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Mr. Chairman, on page 3 Mr. Lofquist points out, in the concluding sentence of the paragraph: "This means that over 54% of the loans are made without guarantee or chattel mortgage security". This is good news. Things have changed since I borrowed money from a bank, Mr. Lofquist. (Laughter). Has the day of the glass eye gone for the bank manager?

MR. LOFQUIST: Well, I might say that the public has responsibilities and generally speaking they are a very honest group.

MR. REILLY: I would expect you to be prejudiced in their favour.

MR. LOFQUIST: I make my living from them.

MR. REILLY: From the standpoint of personal information you indicated to us that there are five different methods of computing interest -- that's in brief number one. Now you tell me if we go in to borrow money that perhaps there will be about three different ways that we can borrow money. Is this correct?

MR. LOFQUIST: Yes.

MR. REILLY: Would you mind telling us what they are and how to go about them, or is this also private information?

MR. LOFQUIST: Actually this is just routine. Let's say we are talking about an ordinary branch loan -- that is, we are not talking about an instalment credit loan here, there is only one instalment credit loan as far as we are concerned -- and each bank has its own particular one -- but when you are dealing at the branch level, depending on the particular arrangements you make. You may borrow on a demand basis, in which case you pay the interest at the end of each month for the preceding month. Or you may borrow on a time note in which case you pay the interest at the end of that particular period. Usually those notes are drawn for two to three months, not generally for long periods. There is no reason why they can't be renewed on payment of interest, but I think it is perfectly understandable why we would like to collect the interest at least every three months. The other way is where the discount is deducted in advance and you get net proceeds. All of which is within the terms of the Bank Act. Now, when the discount is deducted in advance it actually produces an effective rate on the funds received by the customer of slightly higher than 6%.

MR. REILLY: But do most of your borrowers know this?

MR. LOFQUIST: Oh, I think most borrowers know that. Actually most of them are either, today, on a demand loan or term loan basis, a very, very cheap transaction where the discount is deducted in advance -- which answers your question -- most borrowers know.

MR. REILLY: If they want to borrow $500 they get $500, they don't borrow $500 and --

MR. LOFQUIST: It generally works out just that way. They want $500 so you make the note out for $500 and add the interest. They don't want $470, they want $500.

MR. REILLY: Thanks, Mr. Lofquist.

THE CHAIRMAN: Are there any other questions gentlemen?

Now, back on page 3, that last sentence of the first paragraph, "This means 54% of the loans made were without guarantee or chattel mortgage security" -- does that mean there was no security of any kind?

MR. LOFQUIST: That's right, except for the borrower's covenant to pay.

THE CHAIRMAN: Do you have many cases where you collect the insurance on these loans?

MR. LOFQUIST: Yes, yes. There are a number of cases.

THE CHAIRMAN: Could you give us any specific percentage figures?

MR. LOFQUIST: I haven't got any figure on a percentage basis. I think somewhere in here I have some information as to the dollar amount that has been paid off through insurance. Just up to October of '61, from the time we started -- this is the most recent figure I have -- the total insurance claims, the total amount of loans paid off through insurance claims were $1,613,000.

THE CHAIRMAN: That's quite a sizeable amount.

MR. LOFQUIST: The claims are heavier now due to larger volume. I know that would be in proportion to the increase. As you probably know, we operatedon a fairly small basis for a good many years. The rate of growth has been since --

THE CHAIRMAN: Last four years.

MR. REILLY: But this would only represent a very small percentage -- 1% or 2%?

MR. LOFQUIST: Oh, yes, a very small percentage. Therefore, the insurance premium rate is quite low.

MR. LAWRENCE: What type of insurance --

MR. LOFQUIST: These instalment credit loans are life insured. If a person dies --

MR. LAWRENCE: Life insured?

MR. LOFQUIST: Yes. If a person dies while it is in good standing, the balance owing on the note is paid off by the insurance company.

MR. LAWRENCE: You don't have any account or loan insurance --

MR. LOFQUIST: No. This is credit life, not credit insurance.

MR. LAWRENCE: This is not instalment insurance by the bank itself?

MR. LOFQUIST: Oh, no, it can't be. It has to be insured in the insurance company.

MR. REILLY: I little while back we were discussing overdrafts. What was the reaction of

the customers when overdrafts were curtailed?

MR. LOFQUIST: Well, I don't think it was greeted with open arms.

MR. REILLY: It was generally unpopular, would you say so? Was this the banks wish?

MR. LOFQUIST: Yes.

MR. REILLY: You must have been planning this for years.

MR. LOFQUIST: It's a costlier way of operating.

MR. REILLY: What is the bank's view towards the mortgage business at the present time?

MR. LOFQUIST: Well, the banks, in their submission to the Royal Commission, has asked for power to take mortgages as security. In other words to enter the conventional mortgage field.

MR. REILLY: In the direct mortgage field?

MR. LOFQUIST: Conventional mortgage field, yes.

MR. REILLY: But this hasn't been granted yet?

MR. LOFQUIST: No, this is all subject to whenever the revision of the Bank Act comes up, which is scheduled for next year, but it looks as if it is going to be postponed for another year.

MR. REILLY: Could you elaborate on that a little bit?

MR. LOFQUIST: Well, actually I think we have got a section here -- the best thing to do is

just read you the one thing here out of the brief that was presented to the Royal Commission.

This is the presentation that was made to the Royal Commission: "Another important legal limitation on the competitive position of the chartered banks is the prohibition in the Bank Act of investing by chartered banks in mortgages, with the exception of those allowed under the National Housing Act. This prohibition means that the public is largely prevented from seeking mortgage money by approaching the chartered banks as one possible source of the funds required. The field is therefore left open to a range of other lenders who are inhibited neither by government regulations nor by the possibility of competitive action by the chartered banks." Now, that represents the view of the Canadian Banks Association which was placed before the Royal Commission.

MR. LAWRENCE: Are you talking about seconds?

MR. LOFQUIST: Oh, there are all kinds of mortgage lenders, sir, as well as trust companies. Almost every finance company today has a mortgage department.

THE CHAIRMAN: Gentlemen, are there any additional questions that you would like to ask at this time?

Well then, if there are no further questions, we thank you very much, Mr. Lofquist for being with us today and we appreciate the information you have given the Committee, which I am sure will be

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very helpful to us in coming to our final conclusions.

MR. LOFQUIST: On behalf of the Association and my own bank I would like to thank you also for your patience.

THE CHAIRMAN: It's been a pleasure to have you.

Well, gentlemen, this meeting is adjourned. We meet --

MR. MacDONALD: Mr. Chairman, before we adjourn, I wonder if I can make a pass for a bit of information I think it might be useful to get. I was interested in seeing November 15th, in the Toronto Star, a news story to the effect that Minister Edward Heath told the Commons yesterday that legislation will be introduced in the next three weeks to insure a fair deal for people who buy goods on credit. This isn't going to raise Len's blood pressure. One of the key provisions is expected to give householders 72 hours to repudiate any agreement they may sign for a door-to-door salesman to buy goods on the instalment plan. Now we have discussed this and I thought the general concensus was that this would be too unorthodox for contract arrangements, unfair, and so on. And yet this is in connection with the recommendations of the (   ) Commission last year, the whole question of consumers and consumer problems and apparently it is being introduced. I wonder if it would be possible for us to write and ask for a copy of this as soon as it's available?

MR. SEDGWICK: (Inaudible)

THE CHAIRMAN: We will get what information we can.

Gentlemen, we will adjourn until tomorrow morning at 10:00 o'clock and meet again in this same room.

----ADJOURNED AT 3:50 P.M., NOVEMBER 19, 1963.